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MEMORANDUM

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2007 JUN 22 A 9: 24

AZ CORP COMMISSION
DOCKET CONTROL

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: June 22, 2007

RE: STAFF REPORT FOR TUCSON ELECTRIC POWER COMPANY APPLICATION FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS (DOCKET NO. E-01933A-07-0080)

Attached is the Staff Report for Tucson Electric Power Company's application requesting authorization for various financing transactions.

Staff recommends conditional approval of the various financing transactions.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before July 2, 2007.

EGJ:DRR:red

Originator: Dennis Rogers

Attachment: Original and fourteen copies

Arizona Corporation Commission
DOCKETED

JUN 22 2007

DOCKETED BY	

Service List for: Tucson Electric Power Company
Docket No. E-01933A-07-0080

Ms. Michelle Livengood
One South Church St. Ste. 200
Tucson, Arizona 85702

Mr. Christopher C. Kempley
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Arizona Corporation Commission
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Phoenix, Arizona 85007

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Director, Utilities Division
Arizona Corporation Commission
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Ms. Lyn Farmer
Chief Administrative Law Judge, Hearing Division
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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

TUCSON ELECTRIC POWER COMPANY
DOCKET NO. E-01933A-07-0080

APPLICATION FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

JUNE 22, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Tucson Electric Power Company, Docket No. E-01933A-07-0080 is the responsibility of the Staff members listed below. Dennis Rogers was responsible for the financial review and analysis. Prem Bahl was responsible for the engineering review and analysis.

Gordon L Fox
for
Dennis Rogers
Public Utilities Analyst V

Prem Bahl

Prem Bahl
Utilities Engineer - Electrical

EXECUTIVE SUMMARY
TUCSON ELECTRIC POWER COMPANY
DOCKET NO. E-01933A-07-0080

On February 2, 2007, Tucson Electric Power Company ("TEP" or "Company"), a wholly owned subsidiary of UniSource Energy Corporation ("UNS"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization of various financing transactions.

TEP is requesting the following approvals:

1. Authorization for a maximum $1,000,000,000 long-term debt threshold, a $178,830,000 increase from its outstanding long-term debt of $821,170,000 as of December 31, 2006;

2. To exclude capital lease obligations or indebtedness arising from its $150 million Revolving Credit Facility from debt included in the determination of the maximum threshold;

3. To execute and deliver one or more supplemental indentures to its Mortgage and Deed of Trust that establishes a lien on all, or substantially all, of TEP's property as security for all or any part of TEP's indebtedness;

4. Authorization to receive equity capital contributions from its parent company, UNS, in an amount not to exceed $150 million, which would allow TEP to improve or maintain its capital structure.

TEP's application recognizes that maintaining a balanced capital structure is beneficial, and its request to receive equity contributions from UNS in addition to issuing debt indicates that it is making preparations to maintain a reasonably balanced capital structure as its capital requirements increase. TEP's highly leveraged capital structure at December 31, 2006, consisted of 4.3 percent short-term debt, 68.6 percent long-term debt and 27.0 percent equity. Staff typically considers equity at 30 percent of total capital as the minimum financially prudent capital structure for a utility such as TEP and 40 percent as the normal minimum. Staff's analysis shows that an equity infusion of $86.1 million is necessary to increase equity to 30.0 percent of total equity. A pro forma capital structure that assumes that TEP received an $86.1 million equity infusion and subsequently issued $178.83 million of debt is composed of 3.8 percent short-term debt, 68.5 percent long-term debt and 27.6 percent equity. Substituting a $150 million equity infusion for the $86.1 million equity infusion would increase the equity portion of total capital from 27.6 percent to 29.6 percent.

Staff analysis shows that a pro forma times interest earned ratio ("TIER") of 1.57 and a debt service coverage ratio ("DSC") of 2.77 would result from TEP extending its debt to $1.0 billion by issuing a $178,830,000 20-year 6.00 percent amortizing loan. The DSC ratio indicates that TEP could meet all of its obligations.

Staff concludes that incurrence of the long-term debt for which TEP requests authorization, as modified by Staff, is within its corporate powers, is compatible with the public interest, would not impair its ability to provide services and would be consistent with sound financial practices if subsequent to any debt issuance (1) common equity represents at least 30 (40) percent of total capital (common equity, preferred stock, capital leases, long-term debt and short-term debt) and (2) cash coverage ratio ("CCR") is equal to or greater than 1.75 (1.00).

Staff recommends authorization of the long-term debt threshold proposed by TEP subject to the condition that subsequent to any debt issuance common equity represents at least 30 (40) percent of total capital and CCR is equal to or greater than 1.75 (1.00) (calculated using the most recent audited financial statements adjusted to reflect changes to outstanding debt).

Staff further recommends that any new capital leases be included as part of the $1 billion long-term debt threshold.

Staff further recommends that all authorizations to incur long-term debt terminate on December 31, 2010.

Staff further recommends that the authorizations to incur long-term debt obligations provided in this proceeding replace all existing authorizations and that all existing authorizations terminate upon the effective date of the authorizations provided in this proceeding.

Staff further recommends authorization for TEP to receive capital contributions from TEP's parent company, UNS, in an amount up to $150 million.

Staff further recommends authorization of the other financing requests made by TEP in this application except as otherwise specified.

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Introduction

On February 2, 2007, Tucson Electric Power Company ("TEP" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting authorization of various financing transactions.

Notice

On April 9, 2007, TEP filed affidavits of publication verifying public notice of the financing application. TEP published notice of their financing application in *The Daily Territorial, The Arizona Daily Star* and *The Tucson Citizen* on March 29, 2007. The affidavit of publication is attached along with a copy of the Notice.

Compliance

There are no compliance issues outstanding for TEP.

Background

TEP is a wholly owned subsidiary of the UniSource Energy Corporation ("UNS"), and a for-profit Class "A" Arizona public service corporation located in Tucson, Arizona. TEP provides generation, transmission and distribution services to approximately 391,000 retail customers in Tucson, the surrounding Pima County area and to Fort Huachuca in Cochise County.

The Federal Energy Regulatory Commission ("FERC") and the Commission regulate portions of TEP's utility accounting practices and electricity rates. The Commission has authority over TEP's rates charged to retail customers, the issuance of securities, and transactions with affiliated parties.[1]

TEP's current retail rates were established under a settlement agreement authorized in Decision No. 62103, dated November 30, 1999. Under the settlement agreement, TEP's rates are capped until December 31, 2008.[2]

Description and Terms of Proposed Financing

The Company asks approval of the Commission to: (1) have at any one time outstanding in 2007 or thereafter, long-term indebtedness (including current maturities thereof) in an aggregate principal amount of $1,000,000,000 excluding capital lease obligations and indebtedness from its previously approved Revolving Credit facility of $150 million[3]. (2) permit through such authorization any redemptions, refinancings, refundings, renewals, reissuances and

[1] TEP's annual report for the fiscal year ended December 31, 2006, page K-9.
[2] Ibid. page K-18
[3] Authorized in Decision No. 69182 dated December 8, 2006.

rollovers of any such outstanding indebtedness, as well as the incurrence or issuance of any additional long-term indebtedness, and the amendment or revisions of any terms or provisions of or relating to any long-term indebtedness, so long as total indebtedness at any one time outstanding does not exceed the levels in (1) above. (3) provide security for any such financing transactions by the execution and delivery of one or more supplemental indentures to its Mortgage and Deed of Trust; and (4) receive capital contributions from TEP's parent company UNS, in an amount of up to $150 million, that would allow TEP to improve its capital structure or maintain its capital.

Purpose

TEP describes in the application that over the next four years it will need to enter into various financing transactions (1) to refinance existing long-term debt maturities, (2) to refinance existing long-term debt obligations with lower cost debt instruments, (3) to finance new capital expenditures resulting from TEP's growing service territory and increasing reliability needs, and (4) such authorization would provide TEP with the required flexibility to access the capital markets in a timely and efficient manner, to take advantage of opportunities to reduce TEP's financing costs, to select the appropriate financing options to match the purpose of the debt, and to receive additional equity contributions from its parent company UNS to maintain a balanced capital structure.[4]

Engineering Analysis

The expenditure levels associated with the projects included in the construction work plan appear to be reasonable. However, this does not imply a specific treatment of rate base for ratemaking purposes in the Company's future rate filings.

Financial Analysis

TEP requests permission to establish a long-term debt threshold. This request asks for general authorization to take on new debt within the threshold. The general nature of this request calls for financial parameters to place conditions on the borrowings to prevent TEP from incurring an excessive amount of debt. As thresholds are ongoing in nature, the financial parameters employed as conditions for future borrowings must also be ongoing in nature. A combination of cash flow and balance sheet parameters is needed to provide a reasonably complete financial perspective. Equity-to-total capitalization is an effective parameter for providing a balance sheet perspective of financial leverage and risk. Cash coverage ratio ("CCR") provides a measure of a borrower's ability to pay interest expenses with operating cash flow. CCR combined with equity-to-total capitalization can be effective for monitoring appropriate indebtedness. Accordingly, Staff concludes that equity-to-total capitalization and CCR parameters are effective for placing conditions on debt issuances within a framework of threshold authorizations.

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[4] Company's Application Pages 9 and 10.

Staff's analysis is illustrated on Schedule DRR-1. Column [A] reflects TEP's historical financial information for the year ended December 31, 2006, as depicted in the form 10k filed with the Securities and Exchange Commission. Column [B] presents pro forma financial information that modifies Column [A] to reflect an $86.1 million equity infusion. Column [C] presents pro forma financial information that modifies Column [B] to reflect a $178,830,000 increase in long-term debt to attain the requested $1.0 billion threshold, excluding existing capital leases, assuming a 20-year amortizing loan at 6.0 percent. Column [D] presents pro forma financial information that modifies Column [C] to reflect the remaining $63.9 ($150 – 86.1) million portion of the proposed $150 million equity infusion. Staff's analysis includes $30.0 million of TEP's $150 million authorized Revolving Credit Facility as short-term debt and $58.999 million for current lease obligations.

Capital Structure

At December 31, 2006, TEP's capital structure consisted of 4.3 percent short-term debt, 68.6 percent long-term debt, and 27.0 percent equity (Schedule DRR-1, Column [A]). Staff typically considers equity at 30 percent of total capital as the minimum financially prudent capital structure for a utility such as TEP and 40 percent as the normal minimum. Staff's analysis (Column [B]) shows that an equity infusion of $86.1 million is necessary to increase equity to 30.0 percent of total equity. A pro forma capital structure that assumes that TEP received an $86.1 million equity infusion and subsequently issued $178.83 million of debt is composed of 3.8 percent short-term debt, 68.5 percent long-term debt and 27.6 percent equity (Column [C]). Substituting a $150 million equity infusion for the $86.1 million equity infusion would increase the equity portion of total capital from 27.6 percent to 29.6 percent (Column [D]).

Staff concludes that any authorization of the long-term debt threshold proposed by TEP should be subject to the condition that subsequent to any debt issuance common equity represents at least 30 percent of total capital.

Approval of the requested new debt limits would negate the necessity of TEP to file financial applications whenever it has the need to enter into any new debt agreements. Approval of the requested debt threshold would provide TEP with the flexibility to take advantage of any favorable conditions in the financial markets when capital needs arise. Accordingly, authorization to increase the long-term debt is appropriate but should include a termination debt at a date certain to maintain reasonable oversight of TEP's capital financing by compelling it to seek reauthorization.

Cash Coverage Ratio

CCR represents the number of times internally generated cash covers required interest payments on short-term and long-term debt. A CCR greater than 1.0 means that operating cash flow is greater than interest expense.

Schedule DRR-1, Column [A], shows that for the fiscal year ending December 31, 2006, TEP had a 3.10 CCR before recognition of any additional debt.

The pro forma CCR for TEP under the scenario described above for Columns [B], [C], and [D] are 3.10, 2.86 and 2.86, respectively. The pro forma CCR results indicate that TEP would be able to meet interest expenses with operating cash flow.

Staff concludes that any authorization of the long-term debt threshold proposed by TEP should be subject to the condition that subsequent to any debt issuance TEP has a CCR equal to or greater than 1.75 if equity represents less than 40 percent of total capital, otherwise the minimum CCR is 1.00.

TIER and DSC Ratios

Times interest earned ratio ("TIER") represents the number of times earnings cover interest expense on long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long-term but does not mean that debt obligations cannot be met in the short-term.

Debt service coverage ratio ("DSC") represents the number of times internally generated cash will cover required principal and interest payment on short-term and long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Staff analysis shows that a pro forma TIER of 1.57 and a debt service coverage ratio DSC of 2.77 would result from TEP extending its debt to $1.0 billion by issuing a $178,830,000 20-year 6.00 percent amortizing loan. The DSC ratio indicates that TEP could meet all of its obligations.

Conclusions and Recommendations

Staff concludes that incurrence of additional long-term debt for which TEP requests authorization is within its corporate powers, is compatible with the public interest, would not impair its ability to provide services and would be consistent with sound financial practices if subsequent to any debt issuance (1) common equity represents at least 30 (40) percent of total capital (common equity, preferred stock, capital leases, long-term debt and short-term debt) and (2) CCR is equal to or greater than 1.75 (1.00).

Staff further concludes that:

1. The expenditure levels associated with the projects included in the construction work plan appear to be reasonable.

2. TEP should be authorized to incur up to $1.0 billion (in addition to existing capital leases) in long-term indebtedness.

3. TEP should be authorized to conduct the activities enumerated in the application that are necessary to secure and maintain debt.

4. The long-term debt levels authorized in this proceeding should terminate on December 31, 2010.

5. The authorizations to incur long-term debt obligations provided in this proceeding replace all existing long-term debt authorizations and that all existing long-term debt authorizations terminate upon the effective date of the authorizations provided in this proceeding.

6. TEP's levels of long-term debt should be calculated according to generally accepted accounting principles.

7. TEP should be authorized to receive up to $150 million from its parent company UniSource Energy Corporation to improve and maintain its capital structure.

Staff recommends increasing TEP's authorized long-term debt threshold to $1.0 billion subject to the following conditions: (1) subsequent to any debt issuance common equity represents at least 30 (40) percent of total capital (common equity, preferred stock, capital leases, long-term debt and short-term debt), and (2) subsequent to any debt issuance CCR is equal to or greater than 1.75 (1.00).

Staff further recommends that the long-term debt levels authorized in this proceeding terminate on December 31, 2010.

Staff further recommends that the authorizations to incur long-term debt obligations provided in this proceeding replace all existing long-term debt authorizations and that all existing long-term debt authorizations terminate upon the effective date of the authorizations provided in this proceeding.

Staff further recommends authorization for TEP to conduct the activities enumerated in the application that are necessary to secure and maintain debt.

Staff recommends that for each individual agreement/transaction or for the aggregate of similar agreements/transactions with a single entity to incur long-term debt exceeding $1,000,000 within a calendar year that the Company file with Docket Control within 90 days a description of the transaction and a demonstration that the rates and terms were consistent with those generally available to comparable entities at the time.

Tucson Electric Power Company
Docket No. E-01933A-07-0080
Test Year Ended December 31, 2006

Schedule DRR-1

FINANCIAL ANALYSIS

Select Financial Information

Line		[A] (000's) *12/31/2006*		[B] (000's) *Pro Forma*		[C] (000's) *Pro Forma*		[D] (000's) *Pro Forma*	
1	Operating Income	$ 173,173		$ 173,173		$ 173,173		$ 173,173	
2	Depreciation & Amort.	178,331		$ 178,331		178,331		178,331	
3	Income Tax Expense	42,478		42,478		42,478		42,478	
4									
5	Interest Expense	126,975		126,975		137,575		137,575	
6	Repayment of Principal	0		0		4,774		4,774	
7									
8									
9	**TIER**								
10	[1+3] ÷ [5]	1.70		1.70		1.57		1.57	
11	**DSC**								
12	[1+2+3] ÷ [5+6]	3.10		3.10		2.77		2.77	
13	**Cash Coverage Ratio**								
14	[1+2+3] ÷ [5]	3.10		3.10		2.86		2.86	
15									
16									
17									
18	Short-term Debt[1]	$ 88,999	4.3%	$ 88,999	4.2%	$ 88,999	3.8%	$ 88,999	3.7%
19									
20	Long-term Debt	$ 1,409,594	68.6%	$ 1,409,594	65.9%	$1,588,424	68.5%	$1,588,424	66.7%
21									
22	Common Equity	$ 554,714	27.0%	$ 640,814	30.0%	$ 640,814	27.6%	$ 704,714	29.6%
23									
24	Total Capital	$2,053,307	100.0%	$2,139,407	100.0%	$2,318,237	100.0%	$2,382,137	100.0%
25									
26									

27 [1] Includes $30 million of short-term debt from the $150 million revolving credit facility and $58.999 million for current lease obligations.
Column [A]: Form 10k at December 31, 2006.
Column [B]: modifies Column [A] to reflect an $86.1 million equity infusion.
Column [C]: modifies Column [B] to reflect a $178,830,000 increase in long-term debt to attain the requested $1.0 billion threshold (excluding leases) assuming a 20-year amortizing loan at 6.00 percent
Column [D] modifies Column [C] to reflect the remaining $63.9 ($150 - 86.1) million portion of the proposed $150 million equity infusion.

MEMORANDUM

TO: Dennis Rogers
Public Utility Analyst V
Utilities Division

THRU: Del Smith DS
Engineering Supervisor
Utilities Division

FROM: Prem Bahl Prem
Electric Utilities Engineer
Utilities Division

DATE: June 1, 2007

SUBJECT: TUCSON ELECTRIC POWER COMPANY'S FINANCING APPLICATION (DOCKET NO. E-01933A-07-0080)

Tucson Electric Power Company ("TEP" or "Company") submitted an application ("Application") to the Arizona Corporation Commission ("Commission") for authorization to have at any time outstanding debt in 2007 or thereafter in an aggregate principal amount of long-term debt not to exceed $1 billion. The purpose of this Application is to refinance existing long-term debt maturities and obligations, and to finance new capital expenditures resulting from TEP's growing service territory and increasing reliability needs in accordance with its proposed 2007-2011 Construction Work Plan ("CWP" or "Plan"). This will enable the Company to provide affordable and reliable electric service to its customers during the 2007-2011 time period.

Customer and Load Growth

In 2006, TEP provided electric power to 392,477 retail customers in its 1,155 square mile service territory including the metropolitan Tucson area in Pima County, as well as parts of Cochise County. The number of residential customers was 357,646, which was approximately 91.1 percent of the retail customer group, whereas 34,831 commercial and industrial customers accounted for 8.9 percent of that group. With 359,372 total customers in 2002, this reflects an average annual increase of 2.3 percent in customer growth in TEP's service territory over a four-year period. According to TEP, a similar average annual increase in customer growth is projected until 2012.

Historically, the Company's annual peak load grew from 2,060 MW in 2002 to 2,365 MW in 2006, an average annual increase of approximately 5.8 percent. In 2012, the Company projects its annual peak load to increase to 2,780 MW, an average annual increase of approximately 2.73 percent over the 6 year period. That shows that TEP's projected customer load growth pretty closely tracks the customer growth in the planning horizon envisioned in this Application.

Existing and Future Generation Resources

In its recent 2007 Summer Preparedness presentation to the Commission, TEP indicated that the Company would have 2,796 MW of generation resources that include 69 percent coal, and 31 percent gas, and 600 MW of market based resources.

TEP is the Operating Agent for the coal fired Springerville generating station, with three units. The Company owns or leases 100 percent of Units 1 and 2 (380 MW each). Unit 3 is owned by Tri-State Generation & Transmission Association ("Tri-State"). TEP buys 100 MW out of this unit. The fourth unit is under construction and will be 100 percent owned by Salt River Project ("SRP"). TEP also owns the coal fired Sundt generating Unit 4 as well as Sundt

Units 1-3 which are gas fired units and the 75 MW combustion turbine unit at DeMoss Petrie. Both of these generating stations are located in the Tucson Metropolitan area.

The Company has one third ownership (190 MW) in the 570 MW Luna gas-fired combined cycle generating station, located in southern New Mexico, with Public Service Company of New Mexico ("PNM") and Phelps Dodge. TEP also owns 50 percent of San Juan Units 1 & 2 (322 MW); 7.5 percent of Navajo Units 1, 2 & 3 (168 MW); and 7 percent of Four Corners Units 4 & 5 (110 MW).

These resources include 184 MW of reserve margin. Additionally, TEP is entitled to 265 MW from the Southwest Reserve Sharing Group ("SRSG"). TEP will also receive 100 MW from Tri-State and 100 MW from PNM in case of outage of one of the Springerville units. That provides TEP reserve margin between 17.2 percent and 24.8 percent for meeting its retail load of 2,451 MW and firm wholesale load of 162 MW in 2007. This exceeds the WECC criteria of 12 percent reserve margin for the electric utilities in the western interconnection.

TEP is planning to add a 75 MW combustion turbine at DeMoss Petrie in the 2007-2011 period, and will rely on firm power purchases or market based resources for the balance of its resource needs. The funds requested in the Application are required for upgrading pollution control devices, replacing certain generation equipment, and for maintenance purposes relative to the aforementioned generation resources.

Transmission System

TEP owns approximately 361 miles of 138 kV lines, and is owner and part owner of 1,608 miles of 345 kV lines and 512 miles of 500 kV lines. In the current Application TEP plans to upgrade several Extra High Voltage ("EHV")[1] lines and also build new infrastructure as included in its CWP. TEP's transmission upgrades and expansion plans seem to be adequate for

[1] 345 kV and above.

meeting the future needs of the Company in catering to its projected load during the Plan period 2007-2011.

TEP is actively participating in the regional and sub-regional transmission planning forums such as Western Electricity Coordinating Council ("WECC"); Southwest Area Transmission System ("SWAT"); Southwest Transmission Expansion Planning ("STEP"); and Southeast Area Transmission Study ("SATS").

TEP is participating in the Central Arizona Transmission System ("CATS") studies conducted by a stakeholder group on a collaborative basis. CATS is looking at the transmission alternatives in Central Arizona area from a planning perspective to meet future load growth in a reliable manner. As a result of this work, TEP, SRP, APS, Santa Cruz Water and Power Districts ("SCW&P") Association, and Southwest Transmission Cooperative ("SWTC") have embarked upon the Hassayampa - Pinal West – Southeast Valley/Browning Station 500 kV line, which was approved for construction by the Commission in August 2005. In-service dates for different segments of this project are slated to be 2008-2011. The first segment of this 500 kV line, from Hassayampa to Pinal West, approved in the Commission Decision No. 67012, is scheduled to be completed in 2008. TEP plans to loop in the 345 kV Westwing-South line at the Pinal West Substation in 2008. This would reinforce TEP's EHV system to provide a higher capacity link for the flow of power from the Palo Verde area into TEP's service territory.

<u>Review of 2007-2011 Capital Expenditures</u>

In assessing this program, Staff utilized the following criteria.

- Does the Plan adequately address the needs of the projected customer and load growth in TEP's service territory?

- Do the capital expenditures on generation, transmission and distribution infrastructure upgrades and new additions appear appropriate and reasonable in meeting the Company's future native load requirements in a reliable and cost effective manner?

Staff has reviewed TEP's 2007-2011 Construction Work Plan. TEP's total capital expenditure for generation, Transmission and Distribution ("T&D") and General capital expenditure is projected to be $1,073,970,032.

Total generation expenditures for the 2007-2011 period, amounting to $296,388,866, include expenses relative to maintenance, replacement of equipment and upgrades of facilities at the remote generating stations such as Four Corners, Navajo and San Juan and at the Springerville and Tucson generating stations. These expenditures appear to be appropriate and reasonable.

TEP's General expenditures include expenditures for maintenance, equipment replacements and improvements and upgrades for Communication, Office Facilities, and Information Technology. These expenditures total $138,055,604, and appear to be appropriate and reasonable.

TEP's projected Transmission and Distribution ("T&D") capital expenditures are to be incurred for upgrading existing facilities, and building new infrastructure to meet the customer load growth. Total T&D expenditures of $639,525,562, as earmarked for the 2007-2012 period, appear to be appropriate and reasonable given the level of load growth projected as well as new demands that will be placed on TEP related to increasingly stringent WECC reliability criteria[2] as approved by NERC and FERC. These criteria result from the Energy Policy Act of 2005 as well as FERC's new Order 890 that impacts transmission expansion for all electric utilities.

[2] WECC has established more stringent reliability criteria for the western interconnection in terms of higher operational and maintenance standards and greater capital expenditures for installing additional equipment for substations such as protective relaying, voltage regulators, etc.

The following Table No. 1 provides a Summary of the total Capital Expenditures for TEP's 2007-2011 Construction Work Plan, which amount to $1,073,970,032.

According to TEP, the Company already has approximately $821 million in outstanding debt, and is requesting the authority to have outstanding at any time up to $1 billion in long-term debt. That means that TEP could potentially issue up to $179 million in long-term debt over the next four years to finance new capital expenditures subject to Commission approval.

Table No. 1 ~ Summary of TEP's Capital Expenditure (Dollars, 2007-2011)	
Generation	296,388,866
General	138,055,604
Transmission & Distribution	639,525,562
Total	**1,073,970,032**

Conclusions and Recommendations

Based on the aforementioned review of TEP's generation, transmission and distribution projects as included in its 2007-2011 Construction Work Plan budget, Staff believes that this capital improvement plan and the projects identified are appropriate to meet the projected needs of TEP's existing and new customers and ensure system reliability. TEP's ability to serve its native load reliably and cost effectively is contingent upon the Company's upgrading existing electric facilities, replacing certain equipment and adding new T&D infrastructure. The upgrades that TEP has planned should improve its system from a reliability perspective and will also help the Company to meet new reliability criteria developed by WECC and NERC and recently approved by FERC. Staff further concludes that the expenditure levels associated with the projects included in the Plan appear to be reasonable. However, this does not imply a specific treatment of rate base for rate making purposes in the Company's future rate filings.

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BEFORE THE ARIZONA CORPORATION COMMISSION

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MIKE GLEASON -- CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS	DOCKET NO. E-01933A-07-0080 **NOTICE OF FILING AFFIDAVITS OF PUBLICATION**

Tucson Electric Power Company ("TEP"), through undersigned counsel, hereby submits the attached affidavits of publication.

RESPECTFULLY SUBMITTED this 9th day of April, 2007.

TUCSON ELECTRIC POWER COMPANY

By [signature]

Michael W. Patten
ROSHKA DEWULF & PATTEN, PLC.
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

and

Michelle Livengood
Attorney for Tucson Electric Power Company
One South Church Avenue
P.O. Box 711
Tucson, Arizona 85702

Arizona Corporation Commission
DOCKETED
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Original and thirteen copies of the foregoing filed this 9th day of April, 2007, with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing hand-delivered this 9th day of April, 2007, to:

Chairman Mike Gleason
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Commissioner William A. Mundell
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Commissioner Jeff Hatch-Miller
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Ernest Johnson
Director, Utilities Division
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Phoenix, Arizona 85007

AFFIDAVIT OF PUBLICATION

STATE OF ARIZONA)
) ss.
COUNTY OF PIMA)

Audrey Smith, being first duly sworn, deposes and says that (s)he is the **Legal Advertising Manager** of **THE DAILY TERRITORIAL**, a daily newspaper printed and published in the County of Pima, State of Arizona, and of general circulation in the City of Tucson, County of Pima, State of Arizona and elsewhere, and the hereto attached:

PUBLIC NOTICE OF AN APPLICATION BY TUCSON
ELECTRIC POWER COMPANY FOR A FINANCING ORDER
AUTHORIZING VARIOUS FINANCING TRANSACTIONS
DOCKET NO. E-01933A-07-0080

was printed and published correctly in the regular and entire issue of said **THE DAILY TERRITORIAL** for 1 issues; that was first made on the 29th day of March 2007 and the last publication thereof was made on the 29th day of March 2007 ;
that said publication was made on each of the following dates, to-wit:

03/29/07

at the Request of: Tucson Electric Power

The Daily Territorial

by Audrey Smith, Legal Advertising Manager

Subscribed and sworn to before me this 29th day of March 2007 .

Jamie C. Macias
Notary Public in and for the County of Pima, State of Arizona

JAMIE C. MACIAS
Notary Public - Arizona
Pima County
Expires 02/04/08

My commission expires: 2-4-08

PUBLIC NOTICE OF AN APPLICATION BY TUCSON ELECTRIC POWER COMPANY FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS DOCKET NO. E-01933A-07-0080

On February 2, 2007, Tucson Electric Power Company ("the "Company") filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing the Company to enter into various financing transactions to refinance existing long-term debt obligations and to finance new capital expenditures resulting from the Company's growing service territory and increasing reliability needs. The Company requests that such order include: (1) authorization to have at any one time outstanding in 2007 or thereafter, long-term indebtedness (including current maturities thereof) in an aggregate principal amount of $1,000,000,000; (2) authorization to permit any redemptions, refinancings, refundings, renewals, reissuances and rollovers of any such outstanding indebtedness, as well as the incurrence or issuance of any additional long-term indebtedness, and the amendment or revision of any terms or provisions of, or relating to, any long-term indebtedness, so long as total long-term indebtedness at any one time outstanding does not exceed the levels set forth in (1) above; (3) authorization to provide security for any such financing transactions by the execution and delivery of one or more supplemental indentures to its Mortgage and Deed of Trust; and (4) authorization to receive equity capital contributions from its parent company, UniSource Energy Corporation, in an amount up to $150 million, that would allow the Company to improve or maintain its capital structure.

Copies of the Application are available at the Company's offices at One South Church Avenue, Tucson, Arizona 85701 and the Commission's offices at 1200 West Washington, Phoenix, Arizona, for public inspection during regular business hours and on the internet via the Commission website (www.azcc.gov) using the e-docket function.

Intervention in the proceeding on this matter shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. The granting of motions to intervene shall be governed by A.A.C.R14-3-105. Persons desiring to intervene must file a written Motion to Intervene with the Commission (original and thirteen copies), which Motion must also be served upon the Company or its counsel, and should, at a minimum, contain the following:

1. The name, address and telephone number of the proposed intervenor and of any party upon which service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in these proceeding (e.g., a customer of the Company, a shareholder of the Company, a competitor, etc.).
3. A statement certifying that a copy of the Motion to Intervene has been mailed to the Company or its counsel.

Motions to Intervene should be filed at least five days before the hearing. Failure to intervene will not preclude any customer from appearing at the hearing and making a statement on his or her behalf.

If you have any questions about this Application, you may contact the Company at 520-884-3694. If you wish to file written comments on the Application or want further information on intervention you may contact the Consumer Services Section of the Commission at 1200 W. Washington St., Phoenix, AZ 85007, or call 1-800-222-7000.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator Linda Hogan, e-mail Lhogan@azcc.gov, phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

PUBLISH: The Daily Territorial
March 29, 2007
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TUCSON'S NEWSPAPERS

Tucson, Arizona

STATE OF ARIZONA)
COUNTY OF PIMA)

Cezar Duron, being first duly sworn deposes and says: that he is the Legal Advertising Representative of the **TUCSON'S NEWSPAPERS COMPANY,** a corporation organized and existing under the laws of the State of Arizona, and that the said **TUCSON'S NEWSPAPERS PUBLISHING COMPANY** prints and publishes the Arizona Daily Star and Tucson Citizen, daily newspapers printed and published in the City of Tucson, Pima County, State of Arizona, and having a general circulation in said City, County, State and elsewhere, and that the attached

Legal Notice

was printed and published correctly in the entire issue of the said Arizona Daily Star and Tucson Citizen on each of the following dates, to-wit:
March 29, 2007

CD
____

Subscribed and sworn to before me this 4 day of April, 2007

Silvia H. Valdez
Notary Public

SILVIA H. VALDEZ
Notary Public - Arizona
Pima County
Expires 12/15/09

My commission expires __________________

TNI AD NO. 5498301

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